PENSIONS
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Irish Life

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Finance Bill 2016 Update

PENSION ADVISORY SERVICES

Vested-RACs

Committee stage amendments have extended some of the Finance Bill changes to Personal Pensions, technically known as Retirement Annuity Contracts (RACs). This has introduced new terminology for RACs, called "Vested RAC". A vested RAC is not the same as a vested PRSA, as there is no option to use a vested RAC for income drawdown post-retirement. In summary a vested RAC will work as follows:

- A Personal Pension will become a vested RAC on the clients 75th birthday. This is the only way that a policy can become a vested RAC.
- When a Personal Pension becomes a vested RAC this is a Benefit Crystallisation Event, and the value of the policy will be set against the clients €2m Standard Fund Threshold / Personal Fund Threshold.
- It is NOT proposed that the imputed distribution requirement will apply to vested RACs.
- It is not clear what access options will be permitted from a vested RAC. We will be discussing this with Department of Finance and Revenue over the coming weeks to clarify this.
- On death the vested RAC will have the same treatment as if it was an ARF.

Finance Bill 2016 Update

The Finance Bill as published proposes that from the passing of the Finance Act (expected December 2016) when a PRSA or RAC client reaches age 75 their plan will automatically become a vested PRSA or vested RAC respectively, even if they have not yet taken their retirement lump sum.

Also impacted will be PRSA and RAC clients who have already reached age 75, if they have not yet vested their PRSA or taken benefits from their RAC it will automatically become vested on the passing of the Finance Act.

The current rules also continue to apply that a PRSA becomes a vested PRSA

- For a PRSA, when the client takes their tax free lump sum, or
- For a PRSA AVC, when benefits become payable under the main scheme

The background to this change is that some people with funds in excess of the €2m standard fund threshold (SFT) or personal fund threshold (PFT) were using PRSAs and RACs as a shelter to avoid the excess tax that is intended to apply to fund values over these thresholds.

Imputed Distribution for vested PRSAs (not applicable to vested RACs)

Our reading of the proposed legislation is that, because this change does not apply until the Finance Act is passed and because the Finance Act is not scheduled to be passed before 30 November 2016, this change will not impact the imputed distribution requirement for 2016.

Irish Life's current process is that we pay actual distributions to clients subject to the imputed distribution. We will be seeking clarification from the Revenue Commissioners and Department of Finance that actual distributions can continue to vested PRSA clients irrespective of age.

Benefit Crystallisation Event

Since 7 December 2005 every time an individual becomes entitled to receive a pension benefit, e.g. retirement lump sum, annuity, ARF, vested PRSA etc. or they transfer a pension overseas this is a benefit crystallisation event (BCE) and they use up part of their SFT or PFT.

The proposed changes in the Finance Bill will also make the automatic vesting of a PRSA and RAC at age 75 a BCE.

From their 75th birthday the client will have 30 days to complete a BCE certificate giving details of any pensions benefits claimed or pensions transferred overseas (since 7 December 2005)

If a BCE certificate is not received then the life office is required to deduct tax on the assumption that the client has exceeded the €2m SFT/PFT. Tax would apply at the higher rate of income tax, currently 40%. Universal Social Charge and PRSI do not apply.

Death Benefits

The treatment on death changes when a plan becomes a vested PRSA or vested RAC. On death the value of a PRSA or RAC is paid to the client's estate. Whereas a vested PRSA and vested RAC are treated in the same way as an Approved Retirement Fund (ARF) on death.

Further Questions

Following this announcement there are a number of questions that we will need to clarify with the Revenue Commissioners and Department of Finance. Irish Life are concerned by any potential interpretation of Finance Bill 2016 whereby a potentially vulnerable group of clients over age 75 may have access to their pensions savings restricted.

1. We are looking to clarify if a 25% retirement lump sum can still be taken after age 75 or if this must be done before.

2. Given the changes announced it is questionable why vested PRSA clients would be restricted to 5% imputed distribution after age 75 when this restriction does not apply to ARF clients.

3. We are looking to confirm that vested PRSA and vested RAC clients will still have the option to transfer to an ARF or purchase an annuity after age 75.

We will update as we get further clarity on these issues. After the legislation is passed Irish Life will contact the clients affected to inform them of the changes.